

Tape 15

Side A, 4 1/3 - 4 1/2

14 MAY 1979

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MEMORANDUM FOR:

FROM:

DCI

Mr. Tom Watson may call or have his man, Bill Jackson, call for an appointment this week. If so, I want to do it.

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CIA Warns Of Serious Oil Crunch

WASHINGTON (AP) — A new CIA study painted a gloomy picture Wednesday of the nation's ability to recover from the loss of Iranian oil and warned of major shortages, higher prices and an economic slowdown.

Industry and government energy officials told a Senate panel they would not dispute the agency's findings. And they insisted that current worldwide oil shortages are indeed real, not contrived by big oil companies to drive up prices and boost profits.

"The bottom line is that unless Iranian production is soon restored to a level of about 3 to 4 million barrels per day, or oil consumption is restrained, stocks will fall to abnormally low levels by mid-year," the CIA said.

"This will inevitably lead to increased rationing of supplies by oil companies, higher prices, and curtailed economic growth," said the study, which was released by Sen. Mark Hatfield, R-Ore.

The CIA claimed these consequences will happen "even with high levels of production in Saudi Arabia and elsewhere."

Saudi Arabia increased its production by about 1 million barrels a day to help offset the loss of Iranian oil, but there has been considerable speculation that the Saudis will back off their exports somewhat now that Iranian oil is again flowing.

Iran, which produced about 6 million barrels of oil daily before all production was ceased in December, has recently resumed production. But U.S. officials say Iranian production has risen to only about 2.5 million barrels a day, which they claim would permit maximum exports of some 1.3 million barrels daily.

Yasser Arafat, leader of the Palestine Liberation Organization, has said he will call for an embargo of Middle Eastern oil shipments to the United States because of its role in arranging the treaty.

But Shariat Rouhani, who has been Iran's chief official representative to the United States since Ayatollah Ruhollah Khomeini came to power, told reporters at a news conference Wednesday that resumption of Iranian oil shipments "entirely depends on American intentions and American friendship" toward Iran.

"The American people have to get some oil, and the Iranian people have to sell their oil. So we shall export oil according to those principles," he said.

Before the revolution, Iran accounted for 10 percent of the world's oil and 5 percent of the U.S. supply.

Hatfield made public the conclusions of the otherwise-classified CIA report at a Senate Energy Committee hearing into the magnitude of the 3-month-old Iranian cutoff.

Oil industry officials told the panel they agreed that restoration of Iranian oil supplies alone does not signal an end to tight supplies. They warned of spiraling prices and shortages of gasoline and other petroleum products in the months to come.

"If demand is not brought into balance with supply fairly promptly, oil inventories will diminish to inoperable levels as working stocks are drawn," testified Robert N. Dolph, president of Exxon International Co.

Dolph denied contentions by some committee members that oil companies may be overstating the seriousness of the Iranian situation and deliberately hoarding oil supplies to drive up the price.

However, he conceded that Exxon is doing a brisker business and increasing its profits in Europe as a result of the events in Iran. But, he said, "we do not think the record will show that benefit has been excessive."

Assistant Energy Secretary Harry E. Bergold Jr. told the panel: "We have every reason to believe that companies are behaving reasonably and equitably in the present difficult situation."

Questioned on the CIA's findings, Bergold agreed that serious shortages—especially of heating oil for next winter—are possible. And he said there is "no guarantee" that Iranian production will reach the 3-million to 4-million-barrel daily level the CIA says is the minimum production needed to avoid such shortages.

Bergold said that President Carter, as he assembles details of his March 29 energy policy address to the nation, is considering options to deal with the loss of Iranian oil that include:

- Steps to reduce energy consumption in buildings "and in the transportation sector."
- Fuel-switching by utilities and industries from oil to gas and coal.
- Moving electric power from coal-fired power plants to regions served by utilities that burn oil.

• Increased production of oil from Alaska and the government's Elk Hills petroleum reserve in California.

Exxon officials also told the panel they supported decontrol of crude-oil prices—another option reportedly being considered by the president—but that it would not help ease shortages caused by the Iranian turmoil.

However, the Exxon witnesses estimated that full decontrol would result in about \$13 billion in higher costs to consumers over the next 2½ years.

Herbert I. Goodman, president of Gulf Oil's Trading and Transportation subsidiary, told the panel in prepared testimony that another major problem is growing shortages of the kind of oil—light crude—usually used to make gasoline and jet fuel.

This scarcity began to crop up even before the Iranian developments and "therein lie the seeds of the next oil crisis," he said.